

Product Development & Small Business Incubator Program

Overview

The Program offers long-term, asset-backed loans to product development companies and small business incubators/accelerators located in Texas. The loans finance the development and production of new or improved products or the stimulations of new or existing small businesses in Texas. The program targets Texas Businesses unable to obtain desired financing in traditional capital markets.

Eligibility

The Program consists of two separate Funds – Product Development and Small Business Incubator – whose eligibility requirements are outlined below:

PRODUCT DEVELOPMENT	SMALL BUSINESS INCUBATOR
A new or improved product being developed, produced, and/or commercialized in the State of Texas, to include an invention, device, technique, or process , without regard to whether a patent has been or could be granted, that has advanced beyond the theoretical stage and has or is readily capable of having a commercial application . Pure research is ineligible.	A small business, defined as a legal entity which is domiciled in the State of Texas or has at least 51% of its employees located in the state , employs fewer than 100 full-time employees , and is independently owned and operated . Any business in the State of Texas is eligible if the business is substantially likely to develop and expand the opportunities for small businesses in the state (i.e., incubators) in the program's preferred industries.

All applicants must have 3 years of operating history to be eligible for a loan.

Use of Funds

Eligible uses of funds vary and may include purchases of real and personal property as well as working capital. Applicants **MUST**, however, have sufficient unencumbered tangible assets available to serve as collateral for the full requested loan amount (see "Collateral" below).

Principal

Loan amounts are dependent upon the proposed use of funds and the repayment streams available, as well as the applicant's collateral.

Tenor

Loan tenor is capped at 15 years for financing personal property or working capital, and 20 years for financing real property. Within these caps, the Office considers the expected life of the item(s) being financed and the needs of the applicant, including the applicant's projected cash flows for loan repayment, to determine repayment schedules on individual loans.

Interest Rate

Loan interest rates are comprised of a fixed component plus a variable component. The fixed component is based on an applicant's overall creditworthiness and project characteristics. The variable component is based on the rate of interest associated with the bonds which fund the program and resets weekly. The sum of these two rates for a given borrower is the borrower's interest rate on their individual loan. Note that a borrower's interest rate will change weekly according to changes in the rate of interest on the program bonds.

Collateral

Applicants must pledge unencumbered tangible assets of sufficient value to cover the full requested loan amount (generally, 1:1 Orderly Liquidated Value to Principal Amount). The Office of Economic Development Finance (EDF) requires a first lien on all items pledged as collateral.

Guarantors

Third parties may serve as guarantors on program loans in situations where the applicant lacks sufficient collateral to meet the program's requirements. Guarantors may **NOT** serve as the primary source of loan repayment (i.e., applicants must demonstrate reasonably sufficient primary repayment streams).

Benefits versus Traditional Financing

Program loans tend to offer more flexible structures than traditional commercial loans and may be tailored to the needs of individual applicants.

In addition, interest rates on program loans are typically lower than rates for private financing.

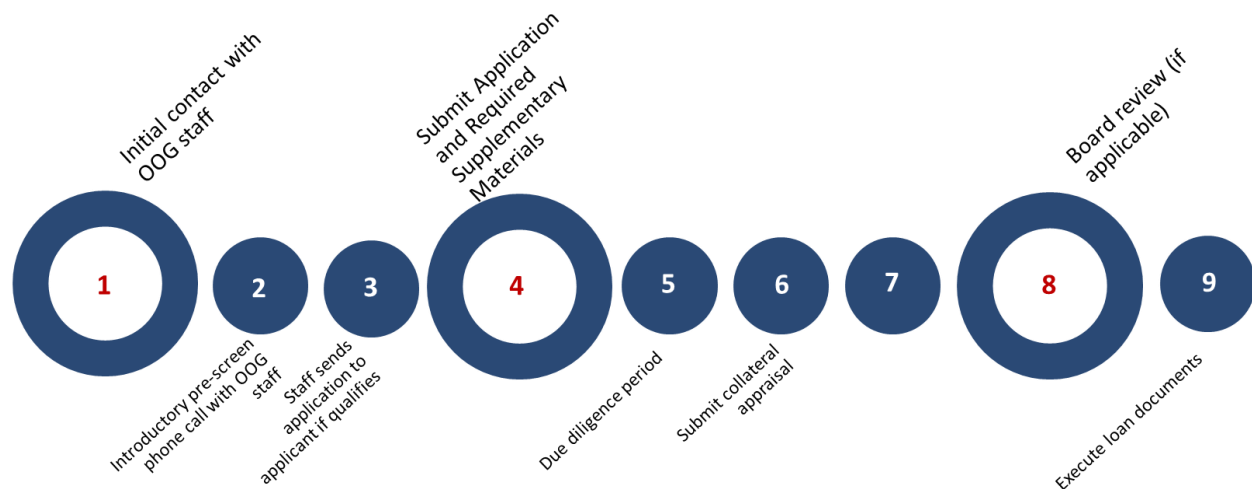
Covenant Requirements

EDF assesses a number of financial ratios as part of the due diligence process for each applicant. The program's policy establishes the following benchmarks for these ratios. Failure to meet these benchmarks does not necessarily preclude an applicant from receiving a program loan.

All financial ratios will be calculated **after incorporating the applicant's requested program loan**.

DEBT-TO-EQUITY RATIO	4:1
CURRENT RATIO	1:1
DEBT SERVICE COVERAGE RATIO	1.2x

Process



The Fund is administered by the Office of Economic Development Finance (EDF) under Economic Development & Tourism within the Office of the Governor. Policy-making responsibilities and final loan reviews (approval/denial) are carried out by a nine-person board appointed by the Governor (when applicable) and EDF staff. EDF staff remains in contact with the board regarding each individual application throughout the process, and staff maintains the authority to decline an application at any time.

- Interested applicants should contact EDF to discuss the details of their project with staff and determine whether the project may be a good fit for the program.
- If applicant qualifies for the program, staff will contact the applicant to complete a Formal Application and attach all Required Supplementary Materials. This includes a non-refundable fee of \$500. Staff will coordinate with applicant as needed to obtain follow-up information upon receipt of formal application and will conduct all necessary due diligence.
- Following the submission of an applicant's Formal Application, EDF requires a collateral appraisal and site visit to be completed prior to official acceptance/denial of application.
- The application proceeds to the EDF staff or board for final review, where the application will be either approved or denied.

Contact

Interested applicants may call our office at (512) 936-0100 or email TexasProduct.Fund@gov.texas.gov to discuss their project with staff.

Frequently Asked Questions

Can I prepay my loan?

In a typical program loan agreement, there is no prepayment penalty included and applicants are free to prepay or refinance at any time with a traditional lender. EDF and the board reserve the right to modify these terms as necessary when drafting individual loan agreements.

How long does the entire application process take?

EDF cannot specify or guarantee a timeline for the processing of individual applications. A typical complete application period ranges from 3-6 months. Review times may be longer during Texas biennial legislative sessions.

How is the program funded?

The program was initially funded in 2005 through two original bond issuances - \$25 million for Product Development and \$20 million for Small Business Incubator. The program is conceived of as a revolving fund, whereby principal and interest payments from previous borrowers re-enter the funds and may be lent to new borrowers.

Are there any other preferences given in the program?

Yes. The full list of preferences as given in statute is as follows:

- Projects that have the greatest likelihood of commercial success, job creation, and job retention in this state.
- Grantees under the small business innovation research program established under 15 U.S.C. Section 638, as amended.
- Companies formed in this state to commercialize research funded at least in part with state funds.
- Applicants that have acquired other sources of financing.
- Companies formed in this state and receiving assistance from designated state small business development centers.
- Applicants who are residents of this state doing businesses in this state and performing financed activities predominantly in this state.

How much money is available in the funds?

Total original fund sizes are \$25 million for Product Development and \$20 million for Small Business Incubator. The amount of money available to lend at any given time varies according to the program's current portfolio of borrowers.

What are the reporting requirements for program borrowers?

Program borrowers are required to submit quarterly reports, regular appraisal updates, and annual audited financial statements. Specific requirements may vary by individual loan.

What will I need in order to fill out an application?

The application requires the borrower's registration information and status from the Texas Secretary of State and from the Texas Comptroller of Public Accounts. (Borrowers must be

registered to do business in the State of Texas.) The application also asks for detailed information on the borrower's corporate structure, loan request, use of funds, items of collateral, any outstanding liabilities of the borrower, and business references.

The Required Supplementary Materials which must accompany the completed application include:

- Detailed business plan
- Audited annual financial statements for the most recent completed three fiscal years (if unaudited, must also submit federal income tax returns for the applicable years)
- Three-year pro forma

What items do you consider when reviewing applications?

EDF considers the following factors, among others, when reviewing applications and conducting due diligence:

1. Borrower's background
2. Purpose of loan
3. Repayment source(s)
4. Management capability, character, and background
5. Value and liquidity of collateral and guarantee(s)
6. Cash flow and financial strength of borrower and guarantor(s)
7. Market and competitive landscape
8. Macro-economic factors
9. Other industry- and borrower-specific considerations and risk factors